

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION FINANCE COMMITTEE

MINUTES OF MEETING

March 14, 2006



The Finance Committee met on Tuesday, March 14, 2006 in the Lincoln Plaza Building at 400 Q Street, Sacramento, California.

The meeting was called to order at 9:35 a.m. and the following members were present:

Robert Carlson, Chair Nick Smith for Steve Westly, Vice Chair James Zerio for Philip Angelides Marjorie Berte Tony Oliveira Kurato Shimada Charles Valdes

Other Board Member present:

Mike Quevedo Priva Mathur

AGENDA ITEM 2 – APPROVAL OF FEBRUARY 10, 2006 MEETING MINUTES

The minutes were approved by the Committee as presented.

AGENDA ITEM 3 – ELECTION OF THE FINANCE COMMITTEE CHAIR AND VICE CHAIR

Robert Carlson was elected as the Chair and Steve Westly was elected as the Vice Chair of the Finance Committee.

AGENDA ITEM 4 - CHIEF AUDITOR'S REPORT

Larry Jensen, Chief, Office of Audit Services, presented a matrix listing the various activities occurring within his Division. The matrix provided a status

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update on the following as an informational item:

- Biennial Audit Plan
- Enterprise-Wide Risk Assessment
- Quality Assurance Review
- Monitoring and Responding to Exposure Drafts and Proposals
- Reportable Significant / Material Findings

Mr. Jensen reported to the Committee that pre-approval of non-audit services to be performed by Deloitte & Touche was granted by the Chair. Deloitte & Touche will perform non-audit services related to Fiscal Services Division Accounting Action Plan. These services are consistent with the Finance Committee Charter and do not impair the financial statement auditor's independence and objectivity. According to the Finance Committee Charter, notification of the preliminary pre-approved non-audit services is required as well as Finance Committee approval of such services. An agenda item will be presented at the next Finance Committee meeting for action by the Committee.

AGENDA ITEM 5 – OFFICE OF AUDIT SERVICES QUARTERLY STATUS REPORT

Staff presented the Office of Audit Services Quarterly Status Report to the Committee as an information item. The report provides the status of audits and special projects as of December 31, 2005.

AGENDA ITEM 6 – REQUEST FOR PROPOSAL (RFP) FOR FINANCIAL STATEMENT AUDITOR

Staff presented a Request for Proposal (RFP) for the Financial Statement Auditor to the Committee as an action item. The new Financial Statement Auditor will audit CalPERS' financial statements beginning with Fiscal Year 2006-07 and ending with Fiscal Year 2010-11. This item was continued from the February meeting where the Committee and staff discussed potential changes to the RFP and the RFP process. The Committee discussed opportunities to increase the potential number of candidates, the scoring methodology and the RFP process. After discussion, the Finance Committee delegated the "Finalist Interviews" to staff in consultation with the Chair and Vice-Chair of the Committee. Therefore, the scoring would also be modified so that the 200 points listed for the Finance Committee would be described as "Interview Points."

The Finance Committee noted the pool of candidate audit firms may be reduced because Government Code Section 20228 prohibits the Board's auditor from serving two consecutive terms. Therefore, the Finance

Committee requested that Staff determine the feasibility of pursuing a change in legislation prior to issuing another RFP for the independent auditor.

The Finance Committee also noted that the pool of candidates may be restricted because the Finance Committee Charter prohibits the Board's financial statement auditor from performing consulting engagements for CalPERS. Therefore, the Committee requested that staff agendize the review of the Finance Committee Charter for a future meeting.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED**, the Committee recommended the Board accept staff's recommendations and the issuance of a Request for Proposal, including Finance Committee amendments, to obtain the services of a qualified audit firm to audit CalPERS' financial statements.

AGENDA ITEM 7 - COMPLIANCE OFFICE REPORT

Sherry Johnstone, Chief Compliance Officer, introduced Sue Kane to the Committee. Ms. Kane will be working as an Assistant Division Chief with a priority in recruiting and hiring staff for the division.

Ms. Johnstone also presented a matrix that reflected the status of the following items to the Committee as an information item:

- Personnel Update
- Program Activities
- Reporting Significant Non-Compliance Issues
- Regulatory Review
- Compliance Area Manager Investments
- Compliance Area Manager Health

AGENDA ITEM 8 – INFORMATION TECHNOLOGY SERVICES STATUS REPORT

Gene Reich, Assistant Executive Officer, Information Technology Services Branch, presented a matrix that reflected the status of the Pension System Resumption (PSR) Project and the Forte Migration Project to the Committee as an information item.

AGENDA ITEM 9 – FISCAL YEAR 2006-07 BUDGET PROPOSALS (FIRST READING)

Lyn Vice, Assistant Division Chief, Fiscal Services Division, presented the first reading of Fiscal Year 2006-07 Budget Proposals to the Committee as an action item.

On **MOTION** by Mr. Shimada, **SECONDED** and **CARRIED**, the Committee recommended the Board approve as first readings the proposed Fiscal Year 2006-07 Administrative Budget of \$261,831,143 and 1,924 positions, the proposed Fiscal Year 2006-07 CalPERS Headquarters Building Account budget of \$33,242,277, the proposed Fiscal Year 2006-07 Enterprise Projects Budget of \$35,916,500, and the transmittal letter for this agenda item to the Joint Legislative Budget Committee, Fiscal Committees of the Legislature, State Controller, and Department of Finance, in accordance with the Budget Act of 2005, and to the Legislative Analyst's Office, State and Consumer Services Agency, and the Office of Legislative Counsel. James Zerio, representing Philip Angelides, voted no.

AGENDA ITEM 10 - CURRENT BUDGET ISSUES

Staff provided an update regarding current budget issues to the Committee as an information item. The items included information on upcoming Legislative Budget Hearings and Spring Finance Letters that were submitted to the Department of Finance for Medicare Part D and GASB 43/45.

AGENDA ITEM 11 - ACCOUNTING ACTION PLAN

Russell Fong, Chief, Fiscal Services Division, and Alan Lum, Assistant Division Chief, Fiscal Services Division, presented the Accounting Action Plan 2006 to the Committee as an information item. The Accounting Action Plan was designed to ensure CalPERS financial integrity and to enhance internal controls. A Steering Committee was created and biweekly meetings have been scheduled. Curtis Howard is the Executive Sponsor, Larry Jensen, Margaret Junker, and Russell Fong are the Steering Committee members, and Alan Lum as the project manager.

AGENDA ITEM 12 - ASSISTANT EXECUTIVE OFFICER REPORT

Curtis Howard, Assistant Executive Officer, Administrative Services Branch, presented a matrix that reflected the status of the Independent Review of the Contract Process, the Emergency Response Plan, and the newly developed Accounting Action Plan to the Committee as an information item.

AGENDA ITEM 13 - PROPOSED APRIL 2006 AGENDA

Mr. Howard stated one item will be removed and two items will be added to the proposed April 2006 agenda. Those items are as follows:

 Remove agenda item 5 – Audit Resolution Policy and Procedures (First Reading)

- Add Financial Statement Auditor Non Audit Services to the Audits section as an action item.
- Add Office of Enterprise Compliance Quarterly Status Report to the Compliance section as an information item.

AGENDA ITEM 14 – PUBLIC COMMENT

There were no public comments presented.

The next Finance Committee meeting is scheduled for April 14, 2006 in Sacramento, California.